

NELSON COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

YEAR ENDED JUNE 30, 2008

**NELSON COUNTY SCHOOL DISTRICT
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BROWN & COMPANY

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William G. Brown, CPA - W. Gilbert Brown III, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky 40004

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of Nelson County School District, as of and for the year ended June 30, 2008, which collectively comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Nelson County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract-General Audit Requirement, Appendix II to the Independent Auditor's Contract - State Audit Requirement, and Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of the Nelson County School District, as of June 30, 2008, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008, on our consideration of the Nelson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nelson County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Nelson County School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brown & Company CPA's

Bardstown, Kentucky
October 13, 2008

**NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the Nelson County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District was \$6.436 million.
- For the 2007-2008 fiscal year raises varied by classification. With classified personnel receiving 5% raise with a maximum of \$2,500. Certified staff received \$3,000 each. For the 2008-2009 fiscal year all employees received a 1% salary increase.
- Purchased no school buses in 2007-2008 and have budgeted none in 2008-2009 to offset the increased cost of salaries due to the mandated salary increases which were not adequately funded.
- Sold approximately 8.2 million in bonds for the addition and renovation at Nelson County High School and the Area Technology Center.
- Entered into an agreement with Studio Kremer Architects to design and construct the renovation of Foster Heights Elementary and the new high school.
- Local tax levied at the four percent rate of 56.4 cents for real estate and 59.5 cents for tangible property.
- The district adopted a budget in May 2008 for the upcoming year with \$1,400,000 in contingency (3.84%)

**NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The government –wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The government-wide financial statements can be found on pages 7 - 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service and day care operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 - 21 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$36.379 million as of June 30, 2008.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

Net Assets for the period ending June 30, 2008 & 2007

| | Governmental activities | | Business type activities | | Total | |
|---|-------------------------|------------------------|--------------------------|-----------------------|------------------------|------------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | 7,012,046.37 | 5,501,616.77 | 913,716.75 | 884,624.13 | 7,925,763.12 | 6,386,240.90 |
| Capital Assets | 61,019,611.52 | 48,752,611.61 | 299,085.25 | 348,762.53 | 61,318,696.77 | 49,101,374.14 |
| Total Assets | \$68,031,657.89 | \$54,254,228.38 | \$1,212,802.00 | \$1,233,386.66 | \$69,244,459.89 | \$55,487,615.04 |
| Long-term liabilities outstanding | 30,594,267.64 | 29,475,527.00 | - | - | 30,594,267.64 | 29,475,527.00 |
| Other liabilities | 2,271,020.06 | 2,905,654.92 | - | - | 2,271,020.06 | 2,905,654.92 |
| Total liabilities | \$32,865,288.24 | \$32,381,181.92 | \$- | \$- | \$32,865,288.24 | \$32,381,181.92 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 29,625,283.52 | 16,791,504.61 | 299,085.25 | 348,762.53 | 29,924,368.77 | 17,140,267.14 |
| Restricted | 5,583,359.42 | 3,928,399.49 | - | - | 5,583,359.42 | 3,928,399.49 |
| Unrestricted | (42,273.29) | 1,153,142.36 | 913,716.75 | 884,624.13 | 871,443.46 | 2,037,766.49 |
| Total Net Assets | \$35,166,369.65 | \$21,873,046.46 | \$1,212,802.00 | \$1,233,386.66 | \$36,379,171.65 | \$23,106,433.12 |

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2008, net of Interfund transfers were \$42,340,521.25.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance \$6,382,429.62 more than budget.
- The total cost of all programs and services was \$33,697,381.52 million net of debt service.

NELSON COUNTY SCHOOL DISTRICT – BARDSTOWN, KY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2008

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2008 and 2007.

| Program | Governmental activities | | Business type activities | | Total | |
|---|-------------------------|------------------------|--------------------------|-----------------------|------------------------|------------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Charges for services | 33,075.00 | 189,176.83 | 1,537,233.72 | 1,489,311.52 | 1,570,308.72 | 1,678,488.35 |
| Operating grants and contributions | 220,227.25 | - | - | - | 220,227.25 | - |
| Capital grants and contributions | - | - | - | - | - | - |
| General Revenues: | | | | | | |
| Taxes | | | | | | |
| Property Taxes | 9,511,213.98 | 9,092,295.42 | - | - | 9,511,213.98 | 9,092,295.42 |
| Motor Vehicle Taxes | 1,066,926.40 | 1,091,743.18 | - | - | 1,066,926.40 | 1,091,743.18 |
| Utility Taxes | 1,476,159.65 | 1,353,474.01 | - | - | 1,476,159.65 | 1,353,474.01 |
| Investment Earnings | 265,512.31 | 719,042.61 | 20,658.47 | 18,572.86 | 286,170.78 | 737,615.47 |
| State & Formula Grants | 29,718,741.99 | 28,625,907.71 | 1,374,159.01 | 1,147,029.83 | 31,092,901.00 | 29,772,937.54 |
| Gains On Sales Of Fixed Assets | - | 125,463.66 | 1,671.17 | 1,190.00 | 1,671.17 | 126,653.66 |
| Miscellaneous | 12,284.34 | 85,358.97 | - | - | 12,284.34 | 85,358.97 |
| Total Revenues | 42,304,140.92 | 41,282,462.39 | 2,933,722.37 | 2,656,104.21 | 45,237,863.29 | 43,938,566.66 |
| Expenses | | | | | | |
| Program activities: | | | | | | |
| Instruction | 22,779,276.85 | 21,495,173.81 | | | 22,779,276.85 | 21,495,173.81 |
| Student Support | 1,771,850.07 | 1,548,121.17 | | | 1,771,850.07 | 1,548,121.17 |
| Instructional staff support | 2,385,376.67 | 2,072,701.73 | | | 2,385,376.67 | 2,072,701.73 |
| District admin support | 909,073.91 | 572,048.24 | | | 909,073.91 | 572,048.24 |
| School admin support | 2,407,766.94 | 2,213,394.34 | | | 2,407,766.94 | 2,213,394.34 |
| Business support | 1,520,512.19 | 1,319,350.99 | | | 1,520,512.19 | 1,319,350.99 |
| Plant operation and maint | 3,711,081.00 | 3,630,112.66 | | | 3,711,081.00 | 3,630,112.66 |
| Student transportation | 2,866,113.99 | 2,791,544.26 | | | 2,866,113.99 | 2,791,544.26 |
| Facilities acquisition and Construction | | | | | | |
| Community service activities | 125,356.01 | 317,621.69 | | | 125,356.01 | 317,621.69 |
| Interest on Long-Term debt | 1,097,789.69 | 1,246,991.29 | | | 1,097,789.69 | 1,246,991.29 |
| Depreciation | 2,119,981.26 | 1,796,251.12 | | | 2,119,981.26 | 1,796,251.12 |
| Other | - | - | | | - | - |
| Business-type activities | | | | | | |
| Food service | | | 2,269,241.24 | 2,119,710.68 | 2,269,241.24 | 2,119,710.68 |
| Child care | | | 685,108.97 | 563,729.51 | 685,108.97 | 561,729.51 |
| Total Expenses | 41,694,178.58 | 39,003,311.30 | 2,954,350.21 | 2,683,440.19 | 44,648,528.79 | 41,686,751.49 |
| Change in Net Assets | 609,962.34 | 2,279,151.09 | (20,627.84) | (27,335.98) | 589,334.50 | 2,251,815.11 |
| Net Assets- Beginning | 21,873,046.46 | 19,593,895.37 | 1,233,386.66 | 1,260,722.64 | 23,106,433.12 | 20,854,618.01 |
| Prior Period Adjustment | 12,683,360.85 | | 43.18 | | 12,683,404.03 | |
| Net Assets- Ending | \$35,166,369.65 | \$21,873,046.46 | \$1,212,802.00 | \$1,233,386.66 | \$36,379,171.65 | \$23,106,433.12 |

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1,688,317 in contingency (3.81%).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 38 of this report.

ADDITIONAL CONTACT INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Tim Hockensmith, Director of Administrative Services, 288 Wildcat Lane, Bardstown, Kentucky, 40004, (502) 349-7000.

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

| Assets | Governmental Activities | Business Type Activities | Total |
|---|------------------------------------|-------------------------------------|-------------------------|
| <u>Current Assets</u> | | | |
| Cash & Cash Equivalents | \$ 5,958,777.10 | \$ 477,747.20 | \$ 6,436,524.30 |
| Inventory | - | 99,701.60 | 99,701.60 |
| Accounts Receivable | 1,053,269.27 | - | 1,053,269.27 |
| Due From Other Funds | - | 336,267.95 | 336,267.95 |
| Investments | - | - | - |
| Total Current Assets | \$ 7,012,046.37 | \$ 913,716.75 | \$ 7,925,763.12 |
| <u>Noncurrent Assets</u> | | | |
| Capital Assets | \$ 78,356,086.46 | \$ 1,103,670.88 | \$ 79,459,757.34 |
| Accumulated Depreciation | (22,796,536.53) | (804,585.63) | (23,601,122.16) |
| Construction In Progress | 5,460,061.59 | - | 5,460,061.59 |
| Total Noncurrent Assets | \$ 61,019,611.52 | \$ 299,085.25 | \$ 61,318,696.77 |
| Total Assets | <u>\$ 68,031,657.89</u> | <u>\$ 1,212,802.00</u> | <u>\$ 69,244,459.89</u> |
| Liabilities & Net Assets | | | |
| <u>Current Liabilities</u> | | | |
| Accounts Payable | \$ 126,593.59 | \$ - | \$ 126,593.59 |
| Due To Other Funds | 336,267.95 | - | 336,267.95 |
| Deferred Revenue | 65,960.78 | - | 65,960.78 |
| Current Portion Of Bond Obligations | 1,349,366.00 | - | 1,349,366.00 |
| Current Portion Of Accrued Sick Leave | 392,832.28 | - | 392,832.28 |
| Interest Payable | - | - | - |
| Total Current Liabilities | \$ 2,271,020.60 | \$ - | \$ 2,271,020.60 |
| <u>Noncurrent Liabilities</u> | | | |
| Noncurrent Portion Of Bond Obligations | \$ 30,044,962.00 | \$ - | \$ 30,044,962.00 |
| Noncurrent Portion Of Accrued Sick Leave | 549,305.64 | - | 549,305.64 |
| Total Noncurrent Liabilities | \$ 30,594,267.64 | \$ - | \$ 30,594,267.64 |
| Total Liabilities | <u>\$ 32,865,288.24</u> | <u>\$ -</u> | <u>\$ 32,865,288.24</u> |
| <u>Net Assets</u> | | | |
| Invested In Capital Assets, Net Of Related Debt | \$ 29,625,283.52 | \$ 299,085.25 | \$ 29,924,368.77 |
| Restricted For: | | | |
| Construction | 4,412,603.42 | - | 4,412,603.42 |
| Future Use | 1,170,756.00 | - | 1,170,756.00 |
| Unrestricted | (42,273.29) | 913,716.75 | 871,443.46 |
| Total Net Assets | <u>\$ 35,166,369.65</u> | <u>\$ 1,212,802.00</u> | <u>\$ 36,379,171.65</u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| FUNCTIONS / PROGRAMS | Expenses | Program Revenues | | |
|---------------------------------------|------------------------|-------------------------------------|---|---|
| | | Charges For Services | Operating Grants & Contributions | Capital Grants & Contributions |
| Governmental Activities: | | | | |
| Instruction | \$22,779,276.85 | \$ 33,075.00 | \$ 95,190.91 | \$ - |
| Support Services: | | | | |
| Student | 1,771,850.07 | - | - | - |
| Instruction Staff | 2,385,376.67 | - | - | - |
| District Administration | 909,073.91 | - | - | - |
| School Administration | 2,407,766.94 | - | - | - |
| Business | 1,520,512.19 | - | - | - |
| Plant Operation & Maintenance | 3,711,081.00 | - | - | - |
| Student Transportation | 2,866,113.99 | - | 125,036.34 | - |
| Central Office | - | - | - | - |
| Facilities Acquisition & Construction | - | - | - | - |
| Community Service Activities | 125,356.01 | - | - | - |
| Other | - | - | - | - |
| Interest On Long-Term Debt | 1,097,789.69 | - | - | - |
| Depreciation | 2,119,981.26 | - | - | - |
| Total Governmental Activities | \$41,694,178.58 | \$ 33,075.00 | \$ 220,227.25 | \$ - |
| Business Type Activities: | | | | |
| Food Service | \$ 2,269,241.24 | \$ 968,146.27 | \$ - | \$ - |
| Child Care | 685,108.97 | 569,087.45 | - | - |
| Total Business Type Activities | \$ 2,954,350.21 | \$1,537,233.72 | \$ - | \$ - |
| Total Primary Government | \$44,648,528.79 | \$1,570,308.72 | \$ 220,227.25 | \$ - |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

**Net (Expense) Revenue And
Changes In Net Assets**

| <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|--------------------------|
| \$(22,651,010.94) | \$ - | \$(22,651,010.94) |
| (1,771,850.07) | - | (1,771,850.07) |
| (2,385,376.67) | - | (2,385,376.67) |
| (909,073.91) | - | (909,073.91) |
| (2,407,766.94) | - | (2,407,766.94) |
| (1,520,512.19) | - | (1,520,512.19) |
| (3,711,081.00) | - | (3,711,081.00) |
| (2,741,077.65) | - | (2,741,077.65) |
| - | - | - |
| - | - | - |
| (125,356.01) | - | (125,356.01) |
| - | - | - |
| (1,097,789.69) | - | (1,097,789.69) |
| <u>(2,119,981.26)</u> | <u>-</u> | <u>(2,119,981.26)</u> |
| \$(41,440,876.33) | \$ - | \$(41,440,876.33) |
| \$ - | \$ (1,301,094.97) | \$ (1,301,094.97) |
| <u>-</u> | <u>(116,021.52)</u> | <u>(116,021.52)</u> |
| \$ - | \$ (1,417,116.49) | \$ (1,417,116.49) |
| <u>\$(41,440,876.33)</u> | <u>\$ (1,417,116.49)</u> | <u>\$(42,857,992.82)</u> |

General Revenues:

Taxes:

| | | | |
|-------------------------|-------------------------|------------------------|-------------------------|
| Property Taxes | \$ 9,511,213.98 | \$ - | \$ 9,511,213.98 |
| Motor Vehicles Taxes | 1,066,926.40 | - | 1,066,926.40 |
| Utility Taxes | 1,476,159.65 | - | 1,476,159.65 |
| Investment Earnings | 265,512.31 | 20,658.47 | 286,170.78 |
| State & Formula Grants | 29,718,741.99 | 1,374,159.01 | 31,092,901.00 |
| Miscellaneous | <u>12,284.34</u> | <u>1,671.17</u> | <u>13,955.51</u> |
| Change In Net Assets | \$ 609,962.34 | \$ (20,627.84) | \$ 589,334.50 |
| Net Assets - Beginning | <u>\$ 21,873,046.46</u> | <u>\$ 1,233,386.66</u> | <u>\$ 23,106,433.12</u> |
| Prior Period Adjustment | \$ 12,683,360.85 | \$ 43.18 | \$ 12,683,404.03 |
| Net Assets - Ending | <u>\$ 35,166,369.65</u> | <u>\$ 1,212,802.00</u> | <u>\$ 36,379,171.65</u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | <u>General Fund</u> | <u>Special Revenue</u> |
|---|-------------------------|----------------------------|
| Assets & Resources: | | |
| Cash & Cash Equivalents | \$2,254,249.95 | \$(707,876.27) |
| Accounts Receivable | 279,432.22 | 773,837.05 |
| Investments | - | - |
| | <u>-</u> | <u>-</u> |
| Total Assets & Resources | <u>\$2,533,682.17</u> | <u>\$ 65,960.78</u> |
| Liabilities & Fund Balances: | | |
| Liabilities | | |
| Accounts Payable | \$ 126,593.59 | \$ - |
| Due To Other Funds | 336,267.95 | - |
| Deferred Revenue | - | 65,960.78 |
| | <u>-</u> | <u>65,960.78</u> |
| Total Liabilities | \$ 462,861.54 | \$ 65,960.78 |
| Fund Balances: | | |
| Reserved: | | |
| Reserved For Future Use | \$1,170,756.00 | \$ - |
| Unreserved: | | |
| Undesignated, reported in: | | |
| General Fund | \$ 900,064.63 | \$ - |
| Special Revenue Funds | - | - |
| Capital Projects Funds | - | - |
| Permanent Funds | - | - |
| | <u>-</u> | <u>-</u> |
| Total Fund Balances | <u>\$2,070,820.63</u> | <u>\$ -</u> |
| Total Liabilities & Fund Balances | <u>\$2,533,682.17</u> | <u>\$ 65,960.78</u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

| Construction Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------|---|---|
| \$ 4,412,403.42 | \$ - | \$ 5,958,777.10 |
| - | - | 1,053,269.27 |
| - | - | - |
| <u>\$ 4,412,403.42</u> | <u>\$ -</u> | <u>\$ 7,012,046.37</u> |
| | | |
| \$ - | \$ - | \$ 126,593.59 |
| - | - | 336,267.95 |
| - | - | 65,960.78 |
| <u>-</u> | <u>-</u> | <u>-</u> |
| \$ - | \$ - | \$ 528,822.32 |
| | | |
| \$ 4,412,403.42 | \$ - | \$ 5,583,159.42 |
| | | |
| \$ - | \$ - | \$ 900,064.63 |
| - | - | - |
| - | - | - |
| - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ 4,412,403.42</u> | <u>\$ -</u> | <u>\$ 6,483,224.05</u> |
| <u>\$ 4,412,403.42</u> | <u>\$ -</u> | <u>\$ 7,012,046.37</u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

| | |
|--|--------------------------------|
| Total fund balance per fund financial statements | \$ 6,483,224.05 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets. | 55,559,549.93 |
| Certain long-term assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets. | 5,460,061.59 |
| Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets. | <u>(32,336,465.92)</u> |
| Net assets for governmental activities | <u><u>\$ 35,166,369.65</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>General Fund</u> | <u>Special Revenue</u> |
|---|-------------------------------|----------------------------|
| Revenues: | | |
| From local sources | | |
| Taxes | | |
| Property | \$ 6,711,213.98 | \$ - |
| Motor Vehicle | 1,066,926.40 | - |
| Utilities | 1,476,159.65 | - |
| Tuition And Fees | - | 33,075.00 |
| Earnings On Investments | 265,307.04 | 205.27 |
| Other Local Revenues | 156,602.70 | 212,651.85 |
| Intergovernmental - Intermediate | | - |
| Intergovernmental - State | 23,728,298.85 | 2,346,607.26 |
| Intergovernmental - Indirect Federal | - | 2,147,399.46 |
| Intergovernmental - Direct Federal | - | 36,069.79 |
| Total Revenues | <u>\$ 33,404,508.62</u> | <u>\$ 4,776,008.63</u> |
| Expenditures | | |
| Instruction | \$ 19,834,327.25 | \$ 2,950,530.55 |
| Support Services: | | |
| Student | 1,411,867.05 | 359,983.02 |
| Instruction Staff | 1,790,989.33 | 594,387.34 |
| District Administration | 930,073.91 | - |
| School Administrative | 2,407,361.23 | 405.71 |
| Business | 1,156,814.74 | 363,697.45 |
| Plant Operation & Maintenance | 3,577,693.90 | 134,637.10 |
| Student Transportation | 2,584,210.48 | 286,052.51 |
| Central Office | - | - |
| Facilities Acquisition & Maintenance | - | - |
| Community Service Activities | 4,043.63 | 315,163.47 |
| Debt Service | - | - |
| Total Expenditures | <u>\$ 33,697,381.52</u> | <u>\$ 5,004,857.15</u> |
| Excess (Deficit) Of Revenues Over Expenditures | \$ (292,872.90) | \$ (228,848.52) |
| Other Financing Sources (Uses) | | |
| Proceeds From Sale Of Bonds | \$ - | \$ - |
| Proceeds From Sale Of Fixed Assets | 7,394.34 | - |
| Operating Transfers In | | 228,848.52 |
| Operating Transfers Out | (228,848.52) | - |
| Total Other Financing Sources (Uses) | <u>\$ (221,454.18)</u> | <u>\$ 228,848.52</u> |
| Excess (Deficit) Of Revenue & Other Financing Sources Over Expenditures & Other Financing Uses | \$ (514,327.08) | \$ 0.00 |
| Fund Balance, July 1, 2007 | 2,585,147.71 | - |
| | <u>2,585,147.71</u> | <u>-</u> |
| Fund Balance, June 30, 2008 | <u><u>\$ 2,070,820.63</u></u> | <u><u>\$ 0.00</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Construction Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------------|---|---|
| \$ - | \$ 2,800,000.00 | \$ 9,511,213.98 |
| - | - | 1,066,926.40 |
| - | - | 1,476,159.65 |
| - | - | 33,075.00 |
| - | - | 265,512.31 |
| 1,300.00 | - | 370,554.55 |
| - | - | - |
| - | 1,358,704.00 | 27,433,610.11 |
| - | - | 2,147,399.46 |
| - | - | 36,069.79 |
| <u>\$ 1,300.00</u> | <u>\$ 4,158,704.00</u> | <u>\$ 42,340,521.25</u> |
| \$ - | \$ - | \$ 22,784,857.80 |
| - | - | 1,771,850.07 |
| - | - | 2,385,376.67 |
| - | - | 930,073.91 |
| - | - | 2,407,766.94 |
| - | - | 1,520,512.19 |
| - | - | 3,712,331.00 |
| - | - | 2,870,262.99 |
| - | - | - |
| 7,465,584.29 | - | 7,465,584.29 |
| - | - | 319,207.10 |
| - | 3,025,500.30 | 3,025,500.30 |
| <u>\$ 7,465,584.29</u> | <u>\$ 3,025,500.30</u> | <u>\$ 49,193,323.26</u> |
| \$ (7,464,284.29) | \$ 1,133,203.70 | \$ (6,852,802.01) |
| \$ 8,247,100.00 | \$ - | \$ 8,247,100.00 |
| - | - | 7,394.34 |
| 1,133,203.70 | - | 1,362,052.22 |
| - | (1,133,203.70) | (1,362,052.22) |
| <u>\$ 9,380,303.70</u> | <u>\$ (1,133,203.70)</u> | <u>\$ 8,254,494.34</u> |
| \$ 1,916,019.41 | \$ - | \$ 1,401,692.33 |
| 2,496,384.01 | - | 5,081,531.72 |
| - | - | - |
| <u><u>\$ 4,412,403.42</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 6,483,224.05</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| | |
|---|-----------------------------|
| Net change in total fund balances per fund financial statements | \$ 1,401,692.33 |
| Amounts reported for governmental activities in the statement of activities are different because of the following: | |
| Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year. | 5,345,603.03 |
| Bond proceeds are reported as revenues in this fund statement because it creates current financial resources, but they are separated and shown as long-term debt on the statement of net assets. | (8,247,100.00) |
| Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long term debt on the statement of net assets and interest expense on the statement of activities. The difference is the amount of principal payment made for the year. | 1,927,710.61 |
| Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred. | 181,726.67 |
| Change in net assets of governmental activities. | <u><u>\$ 609,962.34</u></u> |

See Independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

| Assets | Food Service Fund | Other Enterprise Funds | Total |
|---|----------------------------------|---------------------------------------|------------------------|
| <u>Current Assets</u> | | | |
| Cash & Cash Equivalents | \$ 436,175.56 | \$ 41,571.64 | \$ 477,747.20 |
| Inventory | 99,701.60 | - | 99,701.60 |
| Accounts Receivable | - | - | - |
| Due From Other Funds | - | 336,267.95 | 336,267.95 |
| Investments | - | - | - |
| Total Current Assets | \$ 535,877.16 | \$ 377,839.59 | \$ 913,716.75 |
| <u>Noncurrent Assets</u> | | | |
| Capital Assets | \$ 1,103,592.35 | \$ 78.53 | \$ 1,103,670.88 |
| Accumulated Depreciation | (804,534.58) | (51.05) | (804,585.63) |
| Total Noncurrent Assets | \$ 299,057.77 | \$ 27.48 | \$ 299,085.25 |
| Total Assets | <u>\$ 834,934.93</u> | <u>\$ 377,867.07</u> | <u>\$ 1,212,802.00</u> |
| Liabilities & Net Assets | | | |
| <u>Current Liabilities</u> | | | |
| Accounts Payable | \$ - | \$ - | \$ - |
| Accrued Payroll & Related Expenses | - | - | - |
| Due To Other Funds | - | - | - |
| Total Current Liabilities | \$ - | \$ - | \$ - |
| <u>Net Assets</u> | | | |
| Invested In Capital Assets, Net Of Related Debt | \$ 299,057.77 | \$ 27.48 | \$ 299,085.25 |
| Unrestricted | 535,877.16 | 377,839.59 | 913,716.75 |
| Total Net Assets | <u>\$ 834,934.93</u> | <u>\$ 377,867.07</u> | <u>\$ 1,212,802.00</u> |

See Independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Food Service Fund</u> | <u>Other Enterprise Fund</u> | <u>Total</u> |
|--|----------------------------------|--------------------------------------|--------------------------|
| Operating Revenues: | | | |
| Lunchroom Sales | \$ 968,146.27 | \$ - | \$ 968,146.27 |
| Other Operating Revenues | 997.73 | 569,087.45 | 570,085.18 |
| | <u>997.73</u> | <u>569,087.45</u> | <u>570,085.18</u> |
| Total Operating Revenues | \$ 969,144.00 | \$ 569,087.45 | \$ 1,538,231.45 |
| Operating Expenses: | | | |
| Salaries & Wages | \$ 1,259,535.91 | \$ 635,963.27 | \$ 1,895,499.18 |
| Materials & Supplies | 886,167.65 | 37,204.23 | 923,371.88 |
| Depreciation | 49,704.76 | 15.70 | 49,720.46 |
| Other Operating Expenses | 73,832.92 | 11,925.71 | 85,758.63 |
| | <u>73,832.92</u> | <u>11,925.71</u> | <u>85,758.63</u> |
| Total Operating Expenses | \$ 2,269,241.24 | \$ 685,108.91 | \$ 2,954,350.15 |
| | <u>\$ 2,269,241.24</u> | <u>\$ 685,108.91</u> | <u>\$ 2,954,350.15</u> |
| Income (Loss) From Operations | \$ (1,300,097.24) | \$ (116,021.46) | \$ (1,416,118.70) |
| | <u>\$ (1,300,097.24)</u> | <u>\$ (116,021.46)</u> | <u>\$ (1,416,118.70)</u> |
| Non-Operating Revenues (Expenses) | | | |
| Federal Grants | \$ 1,036,158.00 | \$ - | \$ 1,036,158.00 |
| State Grants | 232,154.63 | 105,846.38 | 338,001.01 |
| Fund Transfer | 13,732.05 | (13,732.05) | - |
| Sale Of Equipment | 673.44 | | 673.44 |
| Interest Income | 20,658.47 | - | 20,658.47 |
| | <u>20,658.47</u> | <u>-</u> | <u>20,658.47</u> |
| Total Non-Operating Revenues (Expenses) | \$ 1,303,376.59 | \$ 92,114.33 | \$ 1,395,490.92 |
| | <u>\$ 1,303,376.59</u> | <u>\$ 92,114.33</u> | <u>\$ 1,395,490.92</u> |
| Net Income (Loss) | \$ 3,279.35 | \$ (23,907.13) | \$ (20,627.78) |
| | <u>\$ 3,279.35</u> | <u>\$ (23,907.13)</u> | <u>\$ (20,627.78)</u> |
| Retained Earnings, July 1, 2007 | \$ 831,655.58 | \$ 401,774.20 | \$ 1,233,429.78 |
| | <u>\$ 831,655.58</u> | <u>\$ 401,774.20</u> | <u>\$ 1,233,429.78</u> |
| Retained Earnings, June 30, 2008 | \$ 834,934.93 | \$ 377,867.07 | \$ 1,212,802.00 |
| | <u>\$ 834,934.93</u> | <u>\$ 377,867.07</u> | <u>\$ 1,212,802.00</u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

Cash Flows From Operating Activities

| | |
|---------------------|--------------------|
| Cash received from: | |
| Lunchroom Sales | \$ 968,146.27 |
| Government Grants | 1,374,159.01 |
| Other Activities | 570,085.18 |
| Cash Paid To / For: | |
| Employees | \$ (1,895,499.18) |
| Supplies | (948,912.65) |
| Other Funds | (336,267.95) |
| Other Activities | <u>(85,758.63)</u> |

Net Cash Provided By Operating Activities \$ (354,047.95)

Cash Flows From Capital & Relate Financing Activities

Purchases Of Capital Assets -

Cash Flows From Investing Activities

| | |
|----------------------------|------------------|
| Sale Of Assets | 673.44 |
| Receipt Of Interest Income | <u>20,658.47</u> |

Net Increase In Cash & Cash Equivalents \$ (332,716.04)

Balances, Beginning Of Year 810,463.24

Balances, End Of Year \$ 477,747.20

Reconciliation Of Operating Income (Loss) To Net Cash
 Provided (Used) By Operating Activities

Operating Income \$ (20,627.78)

Adjustments to reconcile operating income to net cash provided
 (used) by operating activities

| | |
|--------------------------------|---------------------|
| Depreciation | 49,720.46 |
| Interest | (20,658.47) |
| Change In Assets & Liabilities | |
| Receivables | - |
| Inventory | (25,540.77) |
| Sale Of Assets | (673.44) |
| Due From Other Funds | <u>(336,267.95)</u> |

Net Cash Provided By Operating Activities \$ (354,047.95)

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

| | Private Purpose Trust Funds | Agency Funds |
|---------------------------------|--|----------------------------|
| Assets | | |
| Cash & Cash Equivalents | \$ - | \$ 688,861.27 |
| Due From Other Funds | - | - |
| | <hr/> | <hr/> |
| Total Assets | \$ - | \$ 688,861.27 |
| | | |
| Liabilities | | |
| Accounts Payable | \$ - | \$ - |
| Due To Student Groups | - | 661,690.33 |
| | <hr/> | <hr/> |
| Total Liabilities | \$ - | \$ 661,690.33 |
| | | |
| Net Assets Held In Trust | <u><u>\$ -</u></u> | <u><u>\$ 27,170.94</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

| | Private Purpose Trust <u>Funds</u> |
|-----------------------------------|---|
| Additions | |
| Net Interest | \$ - |
| Deductions | |
| Benefits paid | <u>\$ -</u> |
| Change In Net Assets | \$ - |
| Net Assets, Beginning Of Year | <u>\$ -</u> |
| Net Assets, End Of Year | <u><u>\$ -</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Nelson County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Nelson County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Nelson County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Nelson County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Nelson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

Government-wide Financial Statements –are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities accompanied by a total column.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well long-term liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All governmental funds are accounted for on the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and utility tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 39. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The business agent fund is used to account for vending machine revenues.
- C. The Child Care Fund is used to account for after school revenues and programs where a fee is charged for participating.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.564 per \$100 valuation for real property, \$.595 per \$100 valuation for business personal property and \$.548 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Buildings and improvements | 25-50 years |
| Land improvements | 20 years |
| Technology equipment | 5 years |
| Vehicles | 5-10 years |
| Food service equipment | 10-12 years |
| Furniture and fixtures | 7 years |

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 2– ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 3 – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$5,522,383.29. \$100,000 of bank account balances per separate banks is covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Breakdown per financial statements:

| | |
|--------------------|------------------------|
| Governmental funds | \$ 5,958,777.10 |
| Proprietary funds | <u>477,747.20</u> |
| | <u>\$ 6,436,524.30</u> |

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$688,860.

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Nelson County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 4 - BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

| | | NELSON County School District | | |
|--------|------|----------------------------------|---------------------|----------------------|
| Year | | Total Requirement | Principal | Interest |
| 2008 | 2009 | 2,556,214 | 1,349,366 | 1,206,848 |
| 2009 | 2010 | 2,557,724 | 1,395,380 | 1,162,344 |
| 2010 | 2011 | 2,556,596 | 1,443,637 | 1,112,959 |
| 2011 | 2012 | 2,555,547 | 1,494,448 | 1,061,099 |
| 2012 | 2013 | 2,556,284 | 1,546,787 | 1,009,497 |
| 2013 | 2014 | 2,556,146 | 1,604,319 | 951,827 |
| 2014 | 2015 | 2,556,798 | 1,667,978 | 888,820 |
| 2015 | 2016 | 2,558,453 | 1,750,115 | 808,338 |
| 2016 | 2017 | 2,558,371 | 1,817,677 | 740,694 |
| 2017 | 2018 | 2,554,118 | 1,869,817 | 684,301 |
| 2018 | 2019 | 2,555,606 | 1,947,610 | 607,996 |
| 2019 | 2020 | 2,560,111 | 2,034,080 | 526,031 |
| 2020 | 2021 | 2,559,694 | 2,119,828 | 439,866 |
| 2021 | 2022 | 2,287,383 | 1,944,761 | 342,622 |
| 2022 | 2023 | 2,284,456 | 2,023,001 | 261,455 |
| 2023 | 2024 | 1,240,882 | 1,064,672 | 176,210 |
| 2024 | 2025 | 1,247,463 | 1,112,821 | 134,642 |
| 2025 | 2026 | 1,222,458 | 1,130,615 | 91,843 |
| 2026 | 2027 | 1,218,877 | 1,162,416 | 56,461 |
| 2027 | 2028 | 932,156 | 915,000 | 17,156 |
| Totals | | <u>\$43,675,337</u> | <u>\$31,394,328</u> | <u>\$ 12,281,009</u> |

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 5 – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by and operating under Kentucky law.

The KTRS covers all certified full-time employees of each school board. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the KTRS, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Participating employees contribute 9.855% of creditable compensation. Matching contributions are made by the state. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 13.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky

Three-year Trend Information

| Fiscal Year Ended | Annual Amount Withheld from Employees | Annual Amount Contributed by the District | Total Amount Contributed |
|-------------------|---------------------------------------|---|--------------------------|
| 6/30/2006 | 1,652,218.12 | 95,277.45 | 1,747,495.57 |
| 6/30/2007 | 1,783,496.02 | 104,775.76 | 1,888,271.78 |
| 6/30/2008 | 1,946,454.88 | 97,855.22 | 2,044,310.10 |

County Employees Retirement System

Employees who work on average of 80 hours per month over their contract participate in the County Employees Retirement System (CERS), which is a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky law.

The CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability, and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the CERS, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601-6124.

Participating employees contribute 5.00% of creditable compensation. The District contributed 13.5% of creditable compensation during the fiscal year ended June 30, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

Three-year Trend Information

| Fiscal Year Ended | Annual Amount Withheld from Employees | Annual Amount Contributed by the District | Total Amount Contributed |
|-------------------|---------------------------------------|---|--------------------------|
| 6/30/2006 | 252,679.26 | 554,766.78 | 807,446.04 |
| 6/30/2007 | 274,083.72 | 723,027.47 | 997,111.19 |
| 6/30/2008 | 298,434.59 | 965,133.23 | 1,263,567.82 |

NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------|----------------------|---------------------|------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | 2,714,703.09 | - | - | 2,714,703.09 |
| Construction in progress | 7,601,248.00 | - | 2,141,186.41 | 5,460,061.59 |
| Total capital assets not being depreciated | 10,315,951.09 | - | 2,141,186.41 | 8,174,764.68 |
| Capital assets being depreciated | | | | |
| Buildings | 55,491,789.62 | 11,539,595.14 | - | 67,031,384.76 |
| Machinery and equipment | 10,183,627.23 | - | 1,573,638.62 | 8,609,988.61 |
| Total assets being depreciated | 65,675,416.85 | 11,539,595.14 | 1,573,638.62 | 75,641,373.37 |
| Less accumulated depreciation for | | | | |
| Buildings | 19,354,817.41 | - | 3,222,495.25 | 16,132,322.16 |
| Machinery and equipment | 7,883,938.92 | - | 1,219,724.55 | 6,664,214.37 |
| Total accumulated depreciation | 27,238,756.33 | - | 4,442,219.80 | 22,796,536.53 |
| Total capital assets being depreciated, net | 38,436,660.52 | 11,539,595.14 | (2,868,581.18) | 52,844,836.84 |
| Governmental Activities Capital Assets, Net | \$48,752,611.61 | 11,539,595.14 | (727,394.77) | \$61,019,601.52 |
| Business-type Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | - | - | - | - |
| Construction in progress | - | - | - | - |
| Total capital assets being depreciated | - | - | - | - |
| Capital assets being depreciated | | | | |
| Buildings | - | - | - | - |
| Machinery and equipment | 1,103,592.35 | 78.53 | - | 1,103,670.88 |
| Total assets being depreciated | 1,103,592.35 | - | 78.53 | 1,103,670.88 |
| Less accumulated depreciation for | | | | |
| Buildings | - | - | - | - |
| Machinery and equipment | 754,829.82 | 57,197.46 | - | 804,585.63 |
| Total accumulated depreciation | 754,829.82 | 57,197.46 | - | 804,585.63 |
| Total capital assets being depreciated, net | 348,762.53 | 57,197.46 | - | 299,085.25 |
| Business-type Activities Capital Assets, Net | \$348,762.53 | | | \$299,085.25 |

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 7 - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 8 - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. There are also no funds having operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008**

NOTE 11 - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE 12 - LITIGATION

The District's lawyer has advised us that at the present time there is a pending lawsuit against the Nelson County School District entitled The Estate of Carole Forte, et al. vs Nelson County School District, et al., Civil Action No. 07-CI-00338. The nature of the litigation is that it is a wrongful death case alleging that the Nelson County School District was negligent which caused the death of a teacher leaving the parking area of the Cox's Creek Elementary School. The case is in the initial stages, and has not been set for trial, and the School Board is represented by Aaron J. Silletto, of Goldberg & Simpson, P.S.C. The Nelson County School District is covered by insurance which provides for a defense and response to the litigation.

An evaluation of the likelihood of an unfavorable outcome cannot be made at this time. However, it is anticipated that any unfavorable outcome would be covered by liability insurance.

NOTE 13 – SUBSEQUENT EVENTS

The School District's renovation and addition at Nelson County High School and the Area Technology Center is scheduled to be completed by November 30, 2008.

On October 3, 2008, Congress temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009.

NELSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|--------------------------|-------------------------|---|
| Revenues: | | | |
| Taxes | | | |
| Property | \$ 6,650,750.00 | \$ 6,711,213.98 | \$ 60,463.98 |
| Motor Vehicle | 1,040,000.00 | 1,066,926.40 | 26,926.40 |
| Utilities | 1,470,000.00 | 1,476,159.65 | 6,159.65 |
| Tuition And Fees | 2,020.00 | - | (2,020.00) |
| Earnings On Investments | 250,000.00 | 265,307.04 | 15,307.04 |
| Other Local Revenues | 151,010.00 | 156,602.70 | 5,592.70 |
| Intergovernmental - Intermediate | - | - | - |
| Intergovernmental - State | 17,458,299.00 | 23,728,298.85 | 6,269,999.85 |
| Intergovernmental - Indirect Federal | - | - | - |
| Intergovernmental - Direct Federal | - | - | - |
| Total Revenues | <u>\$ 27,022,079.00</u> | <u>\$ 33,404,508.62</u> | <u>\$ 6,382,429.62</u> |
| Expenditures | | | |
| Instruction | \$ 15,735,298.37 | \$ 19,834,327.25 | \$ (4,099,028.88) |
| Support Services: | | | |
| Student | 1,221,994.84 | 1,411,867.05 | (189,872.21) |
| Instruction Staff | 1,443,324.70 | 1,790,989.33 | (347,664.63) |
| District Administration | 797,008.11 | 930,073.91 | (133,065.80) |
| School Administrative | 1,990,924.25 | 2,407,361.23 | (416,436.98) |
| Business | 1,042,293.91 | 1,156,814.74 | (114,520.83) |
| Plant Operation & Maintenance | 2,589,558.50 | 3,577,693.90 | (988,135.40) |
| Student Transportation | 1,910,134.31 | 2,584,210.48 | (674,076.17) |
| Central Office | - | - | - |
| Community Service Activities | - | 4,043.63 | (4,043.63) |
| Site Improvement | - | - | - |
| Total Expenditures | <u>\$ 26,730,536.99</u> | <u>\$ 33,697,381.52</u> | <u>\$ (6,966,844.53)</u> |
| Excess (Deficit) Of Revenues Over Expenditures | \$ 291,542.01 | \$ (292,872.90) | \$ (584,414.91) |
| Other Financing Sources (Uses) | | | |
| Proceeds From Sale Of Bonds | \$ - | \$ - | \$ - |
| Proceeds From Sale Of Fixed Assets | - | 7,394.34 | 7,394.34 |
| Contingency | (1,688,317.14) | - | 1,688,317.14 |
| Operating Transfers In | 335,000.00 | - | (335,000.00) |
| Operating Transfers Out | (36,033.00) | (228,848.52) | (192,815.52) |
| Total Other Financing Sources (Uses) | <u>\$ (1,389,350.14)</u> | <u>\$ (221,454.18)</u> | <u>\$ 1,167,895.96</u> |
| Excess (Deficit) Of Revenue & Other Financing Sources Over Expenditures & Other Financing Uses | \$ (1,097,808.13) | \$ (514,327.08) | \$ 583,481.05 |
| Fund Balance, July 1, 2007 As Originally Stated | 2,585,147.71 | 2,585,147.71 | 0.00 |
| Fund Balance, June 30, 2008 | <u>\$ 1,487,339.58</u> | <u>\$ 2,070,820.63</u> | <u>\$ 583,481.05</u> |

See independent auditor's report and accompanying notes to financial statements.

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

| | <u>CFDA Number</u> | <u>Pass Through Number</u> | <u>Disbursements</u> |
|--|------------------------|------------------------------------|----------------------|
| <u>U.S. Department Of Education</u> | | | |
| Passed through the Kentucky Department of Education | | | |
| Title I, through Bardstown Independent Schools | 84.010 | | |
| Title I, fiscal year 2006-2007 | 84.010 | 351-07 | 3,878 |
| Title I, fiscal year 2007-2008 | 84.010 | 351-08 | 139,574 |
| Title I, Professional Development 2007-2008 | 84.010 | | 377,337 |
| Title I, Part A Parent Involvement | 84.010 | | 50,377 |
| Title I, School Improvement | 84.010 | | 3,601 |
| Subtotal | | | <u>2,829</u> |
| | | | 577,596 |
| Title V, fiscal year 2005-2006 | 84.298 | 533-06 | 2,329 |
| Title V, fiscal year 2006-2007 | 84.298 | 533-07 | 7,841 |
| Title V, fiscal year 2007-2008 | 84.298 | 533-08 | 3,692 |
| Subtotal | | | <u>13,862</u> |
| IDEA - Basic, fiscal year 2006-2007 | 84.027 | 581-07 | 169,687 |
| IDEA - Basic, fiscal year 2007-2008 | 84.027 | 581-08 | 873,760 |
| Subtotal | | | <u>1,043,447</u> |
| IDEA - Preschool, fiscal year 2006-2007 | 84.173 | 587-07 | 33,796 |
| IDEA - Preschool, fiscal year 2007-2008 | 84.173 | 587-08 | 16,774 |
| Subtotal | | | <u>50,570</u> |
| Title III, fiscal year 2007-2008 | 84.365A | | 7,982 |
| Vocational Education, fiscal year 2006-2007 | 84.048 | 462-07 | 616 |
| Vocational Education, fiscal year 2007-2008 | 84.048 | 462-08 | 22,518 |
| Subtotal | | | <u>23,134</u> |
| Tech Prep | 84.318 | 736-08 | 18,463 |
| Teacher Quality, fiscal year 2006-2007 | 84.367 | 710-07 | 74,278 |
| Teacher Quality, fiscal year 2007-2008 | 84.367 | 710-08 | 182,271 |
| Subtotal | | | <u>256,549</u> |
| Smaller Learning Communities, fiscal year 2007-2008 | 84.215L | | 10,413 |
| Safe & Drug Free Schools, fiscal year 2005-2006 | 84.186 | 590.06 | 719 |
| Safe & Drug Free Schools, fiscal year 2006-2007 | 84.186 | 590-07 | 1,720 |
| Safe & Drug Free Schools, fiscal year 2007-2008 | 84.186 | 590-08 | 15,511 |
| Student Drug Testing | 84.186 | 590-07 | 111,757 |
| Subtotal | | | <u>129,707</u> |
| Title II, fiscal year 2007-2008 | 84.367A | 33-540 | 6,207 |
| 21st Century Community Learning, fiscal year 2007-2008 | 84.287 | 744-08 | 981 |
| Medicaid Reimbursement, fiscal year 2007-2008 | | | 44,564 |
| | | | <u>-</u> |
| Total U.S. Department Of Education | | | \$ 2,183,475 |
| <u>U.S. Department of Agriculture</u> | | | |
| Passed through the Kentucky Department of Education | | | |
| National School Lunch Program, fiscal year 2007-2008 | 10.555 | 575-07 | \$ 784,519 |
| National School Breakfast, fiscal year 2007-2008 | 10.553 | 576-07 | 251,639 |
| National Summer Meal Program, fiscal year 2007-2008 | 10.559 | 574-07 | 26,865 |
| | | | <u>1,063,023</u> |
| Total U.S. Department of Agriculture | | | \$ 1,063,023 |
| Total Expenditures of Federal Awards | | | <u>\$ 3,246,498</u> |

**NELSON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Nelson County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Total value of commodities received by the food service operation for the year ended June 30, 2008 was \$134,950.59.

**NELSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET FOR CAPITAL PROJECTS
AS OF JUNE 30, 2008**

| | Capital Outlay Fund | Building Fund | Totals |
|---|---------------------------|------------------|-------------|
| Assets & Resources: | | | |
| Cash & Cash Equivalents | \$ - | \$ - | \$ - |
| Accounts Receivable | - | - | - |
| Investments | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total Assets & Resources | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Liabilities & Fund Balances: | | | |
| Liabilities | | | |
| Accounts Payable | \$ - | \$ - | \$ - |
| Deferred Revenue | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fund Balances: | | | |
| Reserved: | | | |
| Reseved For Future Use | | | |
| Capital Projects Funds | \$ - | \$ - | \$ - |
| | <hr/> | <hr/> | <hr/> |
| Total Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities & Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**NELSON COUNTY SCHOOL DISTRICT
COMBINING INCOME STATEMENT FOR CAPITAL PROJECTS
AS OF JUNE 30, 2008**

| | Capital Outlay Fund | Building Fund | Totals |
|---|---------------------------|------------------------|--------------------------|
| Revenues: | | | |
| From local sources | | | |
| Taxes | | | |
| Property | \$ - | \$ 2,800,000.00 | \$ 2,800,000.00 |
| Motor Vehicle | - | - | - |
| Utilities | - | - | - |
| Tuition And Fees | - | - | - |
| Earnings On Investments | - | - | - |
| Other Local Revenues | - | - | - |
| Intergovernmental - Intermediate | - | - | - |
| Intergovernmental - State | - | - | - |
| Intergovernmental - Indirect Federal | 438,150.00 | 920,554.00 | 1,358,704.00 |
| Intergovernmental - Direct Federal | - | - | - |
| Total Revenues | <u>\$ 438,150.00</u> | <u>\$ 3,720,554.00</u> | <u>\$ 4,158,704.00</u> |
| Expenditures | | | |
| Instruction | - | - | - |
| Support Services: | | | |
| Student | - | - | - |
| Instruction Staff | - | - | - |
| District Administration | - | - | - |
| School Administrative | - | - | - |
| Business | - | - | - |
| Plant Operation & Maintenance | - | - | - |
| Student Transportation | - | - | - |
| Central Office | - | - | - |
| Facilities Acquisition & Maintenance | - | - | - |
| Community Service Activities | - | - | - |
| Debt Service | - | - | - |
| Total Expenditures | <u>\$ -</u> | <u>3,025,500.30</u> | <u>3,025,500.30</u> |
| | \$ - | \$ 3,025,500.30 | \$ 3,025,500.30 |
| Excess (Deficit) Of Revenues Over Expenditures | <u>\$ 438,150.00</u> | <u>\$ 695,053.70</u> | <u>\$ 1,133,203.70</u> |
| Other Financing Sources (Uses) | | | |
| Operating Transfers In | \$ - | \$ - | \$ - |
| Operating Transfers Out | <u>(438,150.00)</u> | <u>(695,053.70)</u> | <u>(1,133,203.70)</u> |
| Total Other Financing Sources (Uses) | <u>\$(438,150.00)</u> | <u>\$ (695,053.70)</u> | <u>\$ (1,133,203.70)</u> |
| | \$(438,150.00) | \$ (695,053.70) | \$ (1,133,203.70) |
| Excess (Deficit) Of Revenue & Other Financing Sources Over Expenditures & Other Financing Uses | \$ - | \$ - | \$ - |
| Fund Balance, July 1, 2007, As Originally Stated | \$ - | \$ - | \$ - |
| Prior Period Adjustment | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance, June 30, 2008 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Cash Balance July 1, 2007</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash Balance June 30, 2008</u> |
|---------------------------------------|--|------------------|----------------------|---|
| Bloomfield Middle School | \$ 54,346.78 | \$ 109,670.78 | \$ 114,874.16 | \$ 49,143.40 |
| New Haven Elementary School | 43,205.10 | 81,787.43 | 81,467.61 | 43,524.92 |
| Boston Elementary School | 35,659.10 | 69,568.62 | 58,161.81 | 47,065.91 |
| Old Kentucky Home Middle School | 66,821.27 | 133,558.33 | 133,838.89 | 66,540.71 |
| Cox's Creek Elementary School | 36,555.81 | 66,663.14 | 61,928.49 | 41,290.46 |
| Foster Heights Elementary School | 38,070.64 | 66,212.73 | 67,445.62 | 36,837.75 |
| Old Kentucky Home Intermediate School | 12,766.78 | 38,472.65 | 34,114.30 | 17,125.13 |
| Nelson County High School | 328,989.22 | 677,883.09 | 667,334.36 | 339,537.95 |
| Bloomfield Elementary School | <u>45,290.63</u> | <u>39,787.18</u> | <u>37,282.77</u> | <u>47,795.04</u> |
| Totals | \$ 661,705.33 | \$1,283,603.95 | \$1,256,448.01 | \$ 688,861.27 |

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

| | Cash Balance July 1, 2007 | Receipts | Disbursements | Cash Balance June 30, 2008 |
|------------------------------|------------------------------------|-------------|---------------|-------------------------------------|
| 100001 Administration | \$34,005.02 | \$16,553.70 | \$3,456.58 | \$47,102.14 |
| 100005 Athletic Vending | 8,694.10 | 17,656.34 | 12,600.18 | 13,750.26 |
| 100006 Banking For Students | - | 1,949.30 | - | 1,949.30 |
| 100007 Lounge Coke- Lance | 4,050.73 | 6,433.18 | 2,395.31 | 8,088.60 |
| 100009 Band | - | 1,202.02 | 1,202.02 | - |
| 100010 Field Trips | 637.04 | - | - | 637.04 |
| 100011 Office Fundraiser | - | 1,090.67 | 1,090.67 | - |
| 100013 Cardinal Connections | 1,299.79 | 218.25 | - | 1,518.04 |
| 100015 Science | 81.90 | 437.50 | 472.54 | 46.86 |
| 100017 AP Tests | 612.45 | 10,663.00 | 10,339.09 | 936.36 |
| 100018 Nchs PTO | 82.63 | - | - | 82.63 |
| 100022 Drama | - | 15,970.33 | 13,561.82 | 2,408.51 |
| 100033 Guidance | 316.07 | 1,253.00 | 1,021.07 | 548.00 |
| 100034 Bowling Fees | 2,737.26 | 19,611.00 | 19,281.00 | 3,067.26 |
| 100035 Technology Education | 230.66 | 1,022.39 | 1,253.05 | - |
| 100036 Tuition | - | 11,152.00 | 185.00 | 10,967.00 |
| 100037 Library | 1,591.66 | 1,262.35 | 253.64 | 2,600.37 |
| 100038 Writing Grant | 226.72 | 280.00 | 345.72 | 161.00 |
| 100040 Nurse | 5,068.33 | 234.25 | 679.93 | 4,622.65 |
| 100041 NOW | 36,735.77 | 19,562.55 | 18,710.69 | 37,587.63 |
| 100048 Partnership For | 3,000.00 | 4,403.10 | 6,480.59 | 922.51 |
| 100051 Textbooks | 231.00 | 6,394.72 | 247.00 | 6,378.72 |
| 100052 Use Of Building | 7,591.76 | 14,363.50 | 17,765.71 | 4,189.55 |
| 100054 Yearbook | 8,679.69 | 6,333.07 | 2,718.25 | 12,294.51 |
| 100056 Milk Vending | 10,758.33 | 18,089.29 | 20,303.93 | 8,543.69 |
| 100058 Smoking Cessation | 759.00 | 274.00 | - | 1,033.00 |
| 100059 ROTC - Governemnt | 12,611.74 | 164.00 | 1,078.16 | 11,697.58 |
| 100060 ROTC - Unit Funds | 3,361.63 | 10,583.08 | 9,859.93 | 4,084.78 |
| 100062 Textbook Fee | 55,079.15 | 24,245.00 | 56,049.59 | 23,274.56 |
| 100067 Spirit Store | - | 1,041.38 | 957.50 | 83.88 |
| 100069 Art | 3,274.60 | 1,344.50 | 642.84 | 3,976.26 |
| 100071 Reimbursment Acct | - | 10,891.48 | 10,617.05 | 274.43 |
| 100073 Family & Consumer | 1,448.79 | - | 1,448.79 | - |
| 100079 Freshman Of Month | 175.00 | 200.00 | 125.00 | 250.00 |
| 100080 PE Class | 6,371.80 | 5,897.50 | 5,242.60 | 7,026.70 |
| 100081 Graduate Class | 5,877.56 | 959.67 | - | 6,837.23 |
| 100088 Math Dept | 68.49 | - | 36.23 | 32.26 |
| 100090 Humanities Class | 62.28 | 3,363.00 | 3,354.95 | 70.33 |
| 100091 Class Credit Recovery | 695.00 | - | - | 695.00 |
| 100092 Special Ed | 341.60 | 365.00 | 652.03 | 54.57 |
| 100094 Drama Trip - New York | 18.17 | 16,336.72 | 16,316.89 | 38.00 |
| 100095 FMD Class | 1,496.19 | 3,389.02 | 4,125.65 | 759.56 |
| 100097 NSF | - | 166.00 | 166.00 | - |
| 200002 Heritage Club | - | 75.00 | - | 75.00 |
| 200008 Key Club | 647.56 | 5,669.05 | 5,519.14 | 797.47 |
| 200021 Business Management | 94.00 | 84.00 | 178.00 | - |

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

| | Cash Balance July 1, 2007 | Receipts | Disbursements | Cash Balance June 30, 2008 |
|-------------------------------|------------------------------------|------------|---------------|-------------------------------------|
| 200024 FFA- VO AG | 761.02 | 34,504.62 | 33,432.84 | 1,832.80 |
| 200025 FCCLA | 12.87 | - | 12.87 | - |
| 200026 S. C. Scholarship | 7,800.00 | 5,500.00 | 7,800.00 | 5,500.00 |
| 200027 Speech & Debate Team | 41.31 | - | - | 41.31 |
| 200029 Grade 9 | - | 5,017.25 | 3,736.30 | 1,280.95 |
| 200030 Grade 10 | 4,131.60 | 755.00 | 4,520.75 | 365.85 |
| 200031 Grade 11 | 5,114.13 | 21,019.60 | 22,451.76 | 3,681.97 |
| 200032 Grade 12 | 1,315.91 | 5,069.83 | 2,163.28 | 4,222.46 |
| 200039 National Honor Society | 630.15 | 4,314.65 | 2,910.97 | 2,033.83 |
| 200042 FFA - Corn Maze | - | 3,680.42 | 1,717.75 | 1,962.67 |
| 200046 Technology Student | 1,660.46 | 175.00 | - | 1,835.46 |
| 200047 Cardinal Academy | - | - | - | - |
| 200049 Literary Magazine | 173.63 | - | - | 173.63 |
| 200050 Student Council | 3,866.25 | 12,017.02 | 10,016.63 | 5,866.64 |
| 200053 Ron Greenwell | 1,725.00 | 525.00 | 1,000.00 | 1,250.00 |
| 200055 Cardinal Theatre | - | 2,914.06 | 2,914.06 | - |
| 200057 FBLA | 1,698.17 | 1,816.50 | 3,514.67 | - |
| 200060 4-H Club | 330.35 | - | 330.35 | - |
| 200063 FFA - Hometown | - | 4,983.00 | 2,289.10 | 2,693.90 |
| 200064 Academic Team | 1,218.57 | 375.90 | 848.67 | 745.80 |
| 200066 CASA - SADD | 321.16 | - | - | 321.16 |
| 200068 FFA Fruit Sales | 1,062.03 | 23,230.31 | 24,038.27 | 254.07 |
| 200070 Fellowship- Christian | 145.07 | 718.50 | 843.28 | 20.29 |
| 200075 Cardinal Creations | - | 1,632.58 | 1,133.42 | 499.16 |
| 200084 Mock Trial | 83.57 | 309.30 | 392.87 | - |
| 200085 FFA - Greenhouse | 1,632.56 | 2,177.25 | 1,968.63 | 1,841.18 |
| 200086 Mike Lusk Scholarship | 445.00 | 500.00 | 500.00 | 445.00 |
| 200087 Floriculture | 91.36 | 3,354.00 | 2,909.36 | 536.00 |
| 200089 Cardinal Pride | 6,139.03 | - | 6,139.03 | - |
| 200093 Future Educators Of | 302.02 | - | - | 302.02 |
| 200095 Diabetes Support Group | 138.01 | - | - | 138.01 |
| 200099 FFA - Region Lincoln | - | 6,260.66 | 1,863.00 | 4,397.66 |
| 400001 Girls Golf | - | 150.00 | - | 150.00 |
| 400003 Girls Soccer | 1,041.33 | 2,853.14 | 3,894.47 | - |
| 400004 Athletic | 19,380.08 | 118,440.10 | 112,850.01 | 24,970.17 |
| 400006 Athletic Programs | 2,091.17 | 2,990.00 | 4,761.25 | 319.92 |
| 400012 Boys Basketball | 1,458.70 | 9,876.05 | 10,099.66 | 1,235.09 |
| 400014 Cardinal Concessions | - | 18,164.14 | 18,164.14 | - |
| 400016 Bleachers | 19,359.95 | 3,655.00 | 18,494.17 | 4,520.78 |
| 400019 Track | 2,710.25 | 6,795.33 | 7,714.81 | 1,790.77 |
| 400020 Caution Crew | - | 721.50 | 525.50 | 196.00 |
| 400023 Boys Soccer | 1,158.57 | 1,855.00 | 2,584.00 | 429.57 |
| 400028 Pom Pom Squad | 1,459.11 | 3,120.00 | 3,662.79 | 916.32 |
| 400043 Dance Team | - | 1,141.68 | 1,141.68 | - |
| 400044 Cross Country | 1,492.52 | 18,017.74 | 9,741.01 | 9,769.25 |
| 400045 Tennis | 0.06 | 3,000.40 | 3,000.46 | - |
| 400061 Baseball | 373.10 | 9,284.50 | 9,075.12 | 582.48 |
| 400065 Girls Softball | 42.66 | 4,413.91 | 4,262.53 | 194.04 |

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

| | Cash Balance July 1, 2007 | Receipts | Disbursements | Cash Balance June 30, 2008 |
|------------------------------|------------------------------------|-------------------|-------------------|-------------------------------------|
| 400072 Volleyball | 8.42 | 10,236.16 | 6,762.09 | 3,482.49 |
| 400077 Golf | 1,334.93 | 2,155.47 | 3,460.15 | 30.25 |
| 400078 Swim Team | 362.13 | 709.00 | 1,029.11 | 42.02 |
| 400082 Boys Cheerleaders | 5,494.93 | 25,442.41 | 20,990.93 | 9,946.41 |
| 400083 Winter Guard | - | 2,193.75 | 646.24 | 1,547.51 |
| 400096 Lady Cards Basketball | 4,497.41 | 13,808.60 | 17,688.09 | 617.92 |
| 400097 Wrestling | 617.56 | 6,388.80 | 6,266.13 | 740.23 |
| 400098 Football Team | 6,253.64 | 9,436.05 | 10,338.02 | 5,351.67 |
| 400099 NC Elementary Boys | - | 1,000.00 | - | 1,000.00 |
| Totals | <u>328,989.22</u> | <u>677,883.09</u> | <u>667,334.36</u> | <u>339,537.95</u> |

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? yes Xno
- Reportable condition(s) identified that are not considered to be material weaknesses? Xyes none reported

Noncompliance material to financial statements noted?

 Xyes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes Xno
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes Xnone reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 yes Xno

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010
10.555-559

Title I
School Lunch Program

Dollar threshold used to distinguish
Between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee? Xyes no

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008**

Section I – Summary of Auditor's Results- Continued

Significant Deficiencies

Internal Control – District Office

2008-1 – Fixed Assets has a control deficiency that could adversely affect the entity's ability to initiate record, process and report financial data reliably in accordance with GAAP. Currently fixed asset reports are not verified with inventory counts of fixed assets.

Nelson County School District Response- The school district has made a significant investment in regards to fixed asset control. They purchased new software and have designated an individual within the accounting staff to attend training on fixed asset control and maintenance. They are currently working to learn the system and they will verify the reports with physical inventory accounts for the 2008-2009 fiscal year.

Internal Control - Activity Fund

2008-2 – During our inspection at Old Kentucky Home Intermediate School and New Haven Elementary we found that some of the cancelled checks that we inspected were issued with only one signature. We recommend that the internal control process be updated concerning the signing of checks to make sure every disbursement contains two signatures before being released.

Nelson County School District Response- The school district will require the bookkeepers within the district to attend additional Redbook training. In addition to the Redbook training an individual from the district office will review the records bi-annually to verify that Redbook procedures are being followed.

2008-3 – During our inspection at Old Kentucky Home Intermediate School we found a few expenditures that were not adequately approved. The Redbook requires two signatures on the purchase request forms before disbursement is to be made. We recommend that the district require a second signature on the purchase request form approving the expenditure before making the disbursement.

Nelson County School Response – The school district will require the bookkeeper with the district to attend additional Redbook training. In addition to the Redbook training an individual from the district office will review the records bi-annually to verify that Redbook procedures are being followed.

2008-4 – During our inspection at Old Kentucky Home Intermediate School, Nelson County High School, and Cox's Creek Elementary we found that some of the Multiple Receipt Forms contained only one signature. All Multiple Receipt Forms are to be signed and dated by both the person / teacher remitting the money and the Activity Fund Treasurer. We recommend that the district require the Multiple Receipt Form to contain two signatures before depositing the money collected.

Nelson County School Response – The district will require the bookkeepers within the district to attend additional Redbook training. In addition to the Redbook training an individual from the district office will review the records bi-annually to verify that Redbook procedures are being followed.

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008**

Section I – Summary of Auditor’s Results- Continued

Compliance

2008-5 – The School District does not have accounting personnel that are capable of preparing the financial statements in GASB Format.

Nelson County School District Response- The school district has decided that they do not need an individual on staff that can prepare the financial statements in GASB format. The members of the district’s board and the superintendent have decided to have an outside party prepare the compiled financial statements for the audit. Management staff members are highly capable making all management decisions and are able to perform all management functions. The District has also designated an individual who possess suitable skill and knowledge to oversee the financial statements prepared in GASB format. They realize that this is considered to be a significant deficiency.

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**NELSON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2008**

There were no prior year audit findings.

BROWN & COMPANY

**CERTIFIED PUBLIC ACCOUNTANTS
FINANCIAL ADVISORS & BUSINESS CONSULTANTS**

442 East Stephen Foster Avenue - PO Box 70 - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of Nelson County School District as of and for the year ended June 30, 2008, which collectively comprise Nelson County School District's basic financial statements and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract-General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirement, and Appendix III to the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nelson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nelson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nelson County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Nelson County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Nelson County School District's financial statements that is more than inconsequential will not be prevented or detected by Nelson County School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2008-1 through 2008-4

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Nelson County School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nelson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-5.

We also noted certain other matters that we reported to management of Nelson County School District in a separate letter dated October 13, 2008.

Nelson County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Nelson County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the board of education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company CPA's

Bardstown, Kentucky
October 13, 2008

BROWN & COMPANY

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education
Nelson County School District
Bardstown, Kentucky

Compliance

We have audited the compliance of Nelson County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30 2008. Nelson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Nelson County School District's management. Our responsibility is to express an opinion on Nelson County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nelson County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Nelson County School District's compliance with those requirements.

In our opinion, Nelson County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Nelson County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nelson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nelson County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, members of the board of education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company CPA's

Bardstown, Kentucky
October 13, 2008

MANAGEMENT LETTER COMMENTS

BROWN & COMPANY

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Members of the Board of Education of
Nelson County School District
Bardstown, Kentucky

In planning and performing our audit of the financial statements of Nelson County School District for the year ended June 30, 2008, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 13, 2008 contains our report on the District's internal control structure. This letter does not affect our report dated October 13, 2008 on the financial statements of the Nelson County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully,

Brown & Company CPA's

Bardstown, Kentucky
October 13, 2008

**NELSON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
YEAR ENDED JUNE 30, 2008**

CURRENT YEAR COMMENTS

No current year findings

STATUS OF PRIOR YEAR FINDINGS AND POINTS

Prior year comments regarding internal controls over signatures on checks was corrected at the individual activity fund that had the issues in the prior year.